

Message Text

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44

ACTION EB-07

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COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15 STR-04

TAR-01 TRSE-00 USIA-15 PRS-01 SP-02 OMB-01 /105 W

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FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 4730

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TAGS: EFIN, EIND, EINV, PN

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: (A) STATE 165596 (B) PANAMA 2139, 11 APRIL 75

1. FOLLOWING IS REVISED NARRATIVE STATEMENT ON PANAMA INVESTMENT CLIMATE:

BEGIN QUOTE:

THE GOVERNMENT OF PANAMA WELCOMES DIRECT FOREIGN INVESTMENT AND IMPOSES FEW RESTRICTIONS ON FOREIGN INVESTORS. U.S. CURRENCY IS LEGAL TENDER IN PANAMA, AND THERE ARE NO FOREIGN EXCHANGE RESTRICTIONS. THIS, TOGETHER WITH A FAVORABLE BANKING LAW, HAS PROMOTED A TREMENDOUS GROWTH OVER THE PAST SEVERAL YEARS OF PANAMA AS AN INTERNATIONAL BANKING CENTER. PANAMA'S INDUSTRIAL INCENTIVES LAW OF 1970 PROVIDES PRIVILEGES AND TAX CONCESSIONS FOR PERIODS OF UP TO 15 YEARS DEPENDING UPON LOCATION AND WHETHER THE COMPANY PRODUCES ENTIRELY FOR LOCAL CONSUMPTION OR EXPORT. SIMILAR LEGISLATION PROVIDES INCENTIVES TO INVESTORS IN NEW HOTELS AND OTHER TOURISM PROJECTS. PANAMA'S TRADE POLICY OF PROTECTING NEW INDUSTRIES BY IMPORT DUTIES OR QUOTAS ON COMPETING IMPORTS IS, HOWEVER, NOT UNIFORMLY APPLIED. PANAMA IMPOSES FEW IMPORT QUOTAS, AND IMPORT

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DUTIES ARE GENERALLY MODERATE. TO ENSURE DOMESTIC SUPPLY THE

GOVERNMENT OCCASIONALLY RESTRICTS EXPORTS OF CERTAIN BASIC PRODUCTS.

NO LIMITATIONS ARE IMPOSED UPON THE EXTENT OF OWNERSHIP BY FOREIGNERS WITH THE EXCEPTION THAT RETAIL TRADE IS LIMITED TO PANAMANIAN CITIZENS. PANAMA'S LABOR CODE PERMITS ONLY 10 PERCENT OF THE ORDINARY WORKERS AND 15 PERCENT OF SPECIALIZED TECHNICAL WORKERS IN A BUSINESS TO BE FOREIGNERS. THE GOVERNMENT SETS MINIMUM WAGE RATES FOR ALL WORKERS ON A GRADUATED SCALE, WITH THE HIGHEST RATES (FROM 50 TO 86 CENTS PER HOUR, DEPENDING ON THE TYPE OF BUSINESS) APPLICABLE IN THE MAJOR CITIES. BIDDING FOR GOVERNMENT PROCUREMENT IS OPEN TO FOREIGN AND DOMESTIC FIRMS ON AN EQUAL BASIS, PROVIDED THE FORMER HAS A LOCAL REPRESENTATIVE.

PRESENT GOVERNMENT POLICY IS TO RESERVE PUBLIC UTILITIES TO STATE OWNERSHIP AND TO PARTICIPATE IN CERTAIN OTHER AREAS OF HIGH SOCIAL PRIORITY. NEGOTIATIONS ARE UNDER WAY FOR PURCHASE OF ONE OF THE REMAINING PRIVATE INTERNATIONAL TELECOMMUNICATIONS COMPANIES. THE GOVERNMENT IS PROMOTING DEVELOPMENT OF THE SUGAR INDUSTRY BY ESTABLISHING ITS OWN SUGAR MILLS AND IS ABOUT TO BEGIN CONSTRUCTION OF A CEMENT PLANT. NEGOTIATIONS HAVE BEEN UNDER WAY SINCE LAST YEAR FOR PURCHASE OF THE LOCAL ASSETS OF THE COUNTRY'S PRINCIPAL FOREIGN INVESTOR, UNITED BRANDS, AND ARE EXPECTED TO LEAD TO A TAKE-OVER OF THE COMPANY'S FACILITIES FOR THE PRODUCTION OF BANANAS BY THE END OF 1977. THE GOVERNMENT IS ACTIVELY SEEKING AN AGREEMENT WITH A MAJOR FOREIGN MINING COMPANY FOR A JOINT VENTURE EXPLOITATION OF THE LARGE CERRO COLORADO COPPER DEPOSIT.

PANAMA'S ECONOMIC GROWTH DROPPED TO THE LOWEST RATE EXPERIENCED IN RECENT YEARS IN 1974, TO AN ESTIMATED 3.5 PERCENT COMPARED WITH 6.5 PERCENT IN 1973. THE GOVERNMENT'S INVESTMENT BUDGET HAS CONTINUED TO EXPAND (BY 27 PERCENT TO \$406 MILLION IN 1975) AND PLACES HIGH PRIORITY ON THE AREAS OF AGRICULTURE, TOURISM, TRANSPORTATION, AND HOUSING FOR LOWER INCOME FAMILIES.

THERE IS AN ACTIVE OPIC INVESTMENT INSURANCE PROGRAM IN PANAMA PROVIDING INCONVERTIBILITY, EXPROPRIATION AND WAR-RISK COVERAGES. IN MID-1975 THERE WERE ELEVEN SUCH INSURANCE CONTRACTS IN EFFECT, WITH COMBINED MAXIMUM COVERAGES TOTALLING \$37 MILLION IN LOAN/EQUITY VALUES. ADDITIONAL COVERAGES APPLIED FOR BY TEN FIRMS, UNCLASSIFIED

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BUT STILL PENDING AT MID-1975, TOTAL \$49.6 MILLION. OPIC COVERAGE IS NOT AVAILABLE FOR THAT PORTION OF AN INVESTMENT ALLOCABLE TO LAND, DUE TO A PROVISION OF THE PANAMA CONSTITUTION BARRING SUBROGATION OF INTEREST IN LAND TO A FOREIGN GOVERNMENT. WHILE THIS PROVISIO TENDS TO DISCOURAGE SOME LAND-INTENSIVE US PRIVATE INVESTMENT IN PANAMA, A MAJOR US FIRM RECENTLY SECURED FROM THE GOP SUITABLE LEASE RIGHTS FOR A TRACT REQUIRED IN A SHRIMP FARMING PROJECT WHICH WAS APPROVED FOR OPIC INSURANCE. END QUOTE

2. THE STATISTICS GIVEN IN PARAGRAPH 2, REF B, REMAIN THE MOST
RECENT AVAILABLE ON DIRECT FOREIGN INVESTMENT IN PANAMA.
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